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United Nations Industrial Development Organization

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Industrial Development Board

Resumed eighteenth session
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Item 4 (d) of the provisional agenda

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Programme and Budget Committee

Thirteenth session
Vienna, 8-11 September 1997
Item 10 of the provisional agenda

COLLECTION

FINANCIAL REGULATIONS AND FINANCIAL RULES

Intersessional working group on proposed amendments
to the financial regulations

Report of the Chairman
(H.E. Mr. F. Mayrhofer-Grünbühel, Austria)

Summary

Reports on the work of the intersessional working group between the sixteenth and eighteenth sessions of the Industrial Development Board.

1. In its decision IDB.16/Dec.9, the Board took note of documents IDB.16/6 and Add.1 as well as the views expressed by delegations during the twelfth session of the Programme and Budget Committee and decided to establish an informal intersessional working group, open to all interested delegations, to be chaired by a representative of the Member States, with the task of studying proposed amendments to the financial regulations. In that decision, the informal working group was requested to submit a report to the Industrial Development Board at its seventeenth session, through the Programme and Budget Committee. However, owing to holding the seventh special session of the Board in April 1997 and the consequent rescheduling of the thirteenth session of the Committee, the present report is submitted to the eighteenth session of the Board through the thirteenth session of the Committee.

2. The working group held one meeting, on 17 December 1996. Agreement was reached on the proposed amendments in respect of a number of financial regulations as contained in documents IDB.16/6 and Add.1 (see annex to the present document). However, in consideration of developments relating to the present circumstances of the Organization, there was general acceptance that consideration of further revisions to the financial regulations should be undertaken subsequent to the thirteenth session of the Programme and Budget Committee in September 1997. The present document was circulated to Member States under cover of a

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note verbale on 25 July 1997, in which comments and an indication of agreement on the proposed changes to the financial regulations were solicited. Those comments have been duly reflected in, and Member States have indicated their agreement with, the content of the present document.

ACTION REQUIRED OF THE COMMITTEE

3. In the interest of improving the financial administration and reporting requirements of the Organization through introducing revisions to the financial regulations agreed by the working group, it is proposed that those financial regulations (see annex) be recommended by the Programme and Budget Committee for submission to the Industrial Development Board at its eighteenth session. Subsequently, the adopted financial regulations would be submitted to the General Conference at its seventh session for approval in accordance with Article 8.3(c) of the Constitution.

4. Owing to the importance of the remaining outstanding issues concerning proposed amendments to the financial regulations, consideration might be given to extending the mandate of the working group with a view to resolving those issues at an appropriate time.

Annex

PRESENT FINANCIAL REGULATIONS AS AGREED IN THE INTERSESSIONAL WORKING GROUP ON FINANCIAL REGULATIONS

Regulation	Current regulation	Proposals of the working group
3.4(a)	The regular budget shall be divided into programmes and subprogrammes for expenditure as well as into sections for income. It shall also be presented by major objects of expenditure. It shall be accompanied by such information annexes and explanatory statements as may be requested by the General Conference (hereinafter referred to as the "Conference"), the Board or the Programme and Budget Committee, as well as such annexes as the Director-General may deem necessary or useful. The regular budget also shall be accompanied by a statement on the main changes in comparison with the previous biennium.	3.4(a) The regular budget shall be divided into major programmes, programmes and subprogrammes for expenditure as well as into sections for income. It shall also be presented by major objects of expenditure. It shall be accompanied by such information annexes and explanatory statements as may be requested by the General Conference (hereinafter referred to as the "Conference"), the Board or the Programme and Budget Committee as well as such annexes as the Director-General may deem necessary or useful. The regular budget also shall be accompanied by a statement on the main changes in comparison with the previous biennium.
3.4(b)	The operational budget shall show the expected income and expenditures in respect of voluntary contributions to the Industrial Development Fund, in respect of such trust funds, reserve and special accounts as have been or may be established by the Director-General and in respect of support costs of technical assistance activities. It shall be accompanied by such information annexes and explanatory statements as may be requested by the Conference, the Board or the Programme and Budget Committee, as well as such annexes as the Director-General may deem necessary or useful.	3.4(b) Unchanged.
4.2(a)	Regular budget appropriations shall be available for obligation during the fiscal period to which they relate.	4.2(a) Unchanged
4.2(b)	Regular budget appropriations shall remain available for twelve months following the end of the fiscal period to which they relate, to the extent that they are required to discharge obligations in respect of goods supplied and services rendered during that fiscal period and to liquidate any other outstanding obligation of that fiscal period. The unencumbered balance of the appropriations at the end of a fiscal period shall be surrendered to the Members at the end of the first calendar year following the fiscal period after deducting therefrom any contributions from Members relating to that fiscal period which remain unpaid, and shall be credited to the Members in proportion to their assessed contributions in accordance with the provision of Financial Regulations 4.2(c) and 5.2(d).	4.2(b) Subject to further discussion.

Regulation	Current regulation	Proposals of the working group
4.2(c)	At the end of the twelve-month period referred to in subparagraph (b) above, the then remaining balance of any regular budget appropriations retained shall be reported in detail by the Director-General to the External Auditor for examination and review and, after deducting therefrom any contributions from Members relating to the fiscal period of the appropriations which remain unpaid, shall be surrendered to the Members in proportion to their assessed contributions at the end of the second calendar year following the fiscal period to which the appropriations relate, provided, however, that before the respective share of the balance is surrendered to any Member that has outstanding regular budget obligations to the Organization, those obligations shall first be brought to account. Any unliquidated regular budget obligation of the fiscal period in question shall at that time either be cancelled or, where the obligation remains a valid charge, transferred as an obligation against the current appropriations.	4.2(c) Subject to further discussion.
4.3(a)	No transfer of expenditures shall take place between the regular budget and the operational budget.	4.3(c) Unchanged.
4.3(b)	No transfer between major objects of expenditure within the regular budget may take place, except when approved by the Conference in accordance with Regulation 3.11.	4.3(b) Subject to further discussion.
4.3(c)	Transfers within major objects of expenditure of the regular budget may be made by the Director-General, who shall inform the Board, through the Programme and Budget Committee, and the Conference thereof as soon as possible, provided that in the first fiscal period following its creation, a professional-level post may not be transferred to another programme or subprogramme.	4.3(c) Subject to further discussion.
5.1(a)	The appropriations approved for regular budget expenditures, subject to the adjustments effected in accordance with the provisions of Regulation 5.2, shall be financed by mandatory contributions from the Members in accordance with a scale of assessments established by the Conference as provided in Article 15 of the Constitution.	5.1(a) Unchanged.
5.1(b)	Pending the receipt of such contributions, the appropriations may be financed from the working capital Fund.	5.1(b) Unchanged.
5.1(c)	For each of the two years of the fiscal period, Members shall contribute one half to the total approved amount.	5.1(c) Unchanged.

Regulation	Current regulation	Proposals of the working group
5.1(d)	Each assessment shall be established in a component in United States dollars and the remainder in Austrian schillings in direct proportion to the respective shares of regular budget expenditures determined by the Conference, upon recommendation of the Director-General, to be linked to these two currencies. The initial assessment in Austrian schillings shall be established at the United Nations accounting rate of exchange in effect at the time the regular budget is adopted by the Conference.	5.1(d) Each assessment shall be established in a component in United States dollars and the remainder in Austrian schillings in direct proportion to the respective shares of regular budget expenditures determined by the Conference, to be linked to these two currencies.
5.2	For each of the two years of the fiscal period the assessment of Members shall be adjusted in respect of:	5.2 Unchanged.
(a)	Supplementary appropriations for which contributions have not yet been assessed;	5.2(a) Unchanged.
(b)	Half of the estimated miscellaneous income to the regular budget for the fiscal period, for which credits have not previously been taken into account, and adjustments in estimated miscellaneous income previously taken into account;	5.2(b) Half of the estimated miscellaneous income to the regular budget for the fiscal period and credits in respect of income not previously taken into account.
(c)	Contributions resulting from the assessment of new Members as provided in Financial Regulation 5.6;	5.2(c) Unchanged.
(d)	Any balance of the appropriations surrendered to Members under Financial Regulations 4.2(b) and (c).	5.2(d) Subject to further discussion.
10.1(a)	There shall be a General Fund for the purpose of accounting for those expenditures of the Organization, which are to be financed from the regular budget.	10.1(a) Unchanged.
10.1(b)	To the General Fund shall be credited:	10.1(b) Unchanged.
(i)	The contributions to the regular budget paid by members pursuant to Financial Regulation 5.1;	10.1(b)(i) Unchanged.
(ii)	Any advances made from the Working Capital Fund to finance expenditures of the regular budget;	10.1(b)(ii) Unchanged.
(iii)	Revenue derived from the Staff Assessment Plan;	10.1(b)(iii) Deleted.
(iv)	Miscellaneous income to the regular budget including income from investment of the Working Capital Fund and the General Fund, proceeds from the provision or rental of goods or services, or adjustments arising subsequent to the closing of an operational budget account such as a trust fund, special account, project, etc.	10.1(b)(iii) Miscellaneous income to the regular budget including income from investment of the Working Capital Fund and the General Fund, proceeds from the provision or rental of goods or services, or adjustments arising subsequent to the closing of an operational budget account such as a trust fund, special account, project, etc.

Regulation	Current regulation	Proposals of the working group
10.2(a)	The Director-General shall establish such accounts and maintain such accounting records as are necessary.	10.2(a) The Director-General shall establish such accounts and maintain such accounting records as are necessary, giving due consideration to the United Nations accounting standards.
10.2(b)	The Director-General shall prepare and submit final accounts for each fiscal period showing its status of appropriations, including: (i) The original budget appropriations; (ii) Any supplementary appropriations; (iii) The appropriations as modified by any transfers; (iv) Credits, if any, other than the appropriations voted by the Conference; (v) The amounts charged against those appropriations and/or other credits.	10.2(b) Unchanged.
10.2(c)	The Director-General also shall prepare and submit:	10.2(c) Unchanged.
	(i) A statement showing the assets and liabilities of the Organization at the close of the fiscal period;	10.2(c)(i) A statement of income and expenditure and changes in reserves and fund balances;
	(ii) An analysis of the financial situation of the Organization at the close of the fiscal period;	10.2(c)(ii) A statement of assets, liabilities, and reserves and fund balances;
	(iii) Such other information as may be appropriate.	10.2(c)(iii) A statement of cash flow;
		10.2(c)(iv) A statement of appropriations by major programme;
		10.2(c)(v) An analysis of the financial situation of the Organization at the close of the fiscal period;
		10.2(c)(vi) Such other information as may be appropriate.

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Programme and Budget Committee

Thirteenth session
Vienna, 8-11 September 1997
Item 9 of the provisional agenda

INDUSTRIAL DEVELOPMENT FUND AND OTHER VOLUNTARY CONTRIBUTIONS

Report by the Director-General

Summary

Reviews the current resource mobilization pattern of the Industrial Development Fund and describes the programming thrust for 1998 and 1999. Presents innovative modalities for resource mobilization to increase resources available for the implementation of priority programmes.

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Abbreviations

ASEAN	Association of South-East Asian Nations
CFC	Common Fund for Commodities
IDF	Industrial Development Fund
LDC	least developed country
MERCOSUR	Common Market of the Southern Cone
OECD	Organization for Economic Cooperation and Development
UNDP	United Nations Development Programme

Introduction

1. In view of the limited resources available in the regular budget for technical cooperation activities, extrabudgetary funding for UNIDO projects is essential to enable the Organization to deliver priority services to Member States. The Industrial Development Fund (IDF) is the central mechanism for such funding. In addition, projects may be funded through individual trust funds from a variety of donors.

I. OVERVIEW OF 1996

2. The present report provides information on the volume of funding mobilized through IDF as well as through the trust fund mechanisms in 1996, broken down by thematic priority and region. The report also describes new approaches to mobilizing resources both from existing donors as well as from new funding partners, as well as the approach for programming the resources.

3. In 1996, UNIDO mobilized more funds for technical cooperation activities than in any year since 1990. Net approvals, i.e. the total volume of new projects and net project revisions, amounted to $117.8 million,[1] a 27 per cent increase over the amount of $92.3 million in 1995, and a 37 per cent increase over the sum of $86.2 million in 1994. All main groups of external funds, i.e. IDF (excluding Montreal Protocol), Montreal Protocol, trust funds and the United Nations Development Programme (UNDP) showed increases over 1995.

4. The distribution of IDF project approvals is given in the *Annual Report of UNIDO 1996* (IDB.17/10/Add.1-PBC.13/10/Add.1, appendix C, table 2). Both the geographical and the thematic distribution of projects is a reflection of donor selection, as virtually all the external funds are special purpose in nature.

5. The high-impact programmes, prepared as part of the reform in late 1995, led to considerable new approvals. An example thereof is the programme for application of quality principles to the food-processing sector in seven sub-Saharan African countries, which attracted $2.3 million from Germany. Preparatory work to extend the programme to other least developed countries (LDCs) and low-income countries was also financed by Germany. Japan, the Republic of Korea, Sweden and UNDP contributed to the Viet Nam part of integrated advisory services for industrial policy formulation and competitiveness strategies, for a total of more than $1 million. Austria and Japan contributed to the programme on new technologies for abatement of global mercury pollution, including the first country-level application in the United Republic of Tanzania. For the high-impact programme on the development of entrepreneurship for women, Belgium funded the country project for Mali to a value of more than $1 million as well as preparatory assistance for Côte d'Ivoire and Senegal, while Germany funded the "needs assessment" for Zimbabwe. In the context of the high-impact programme for the promotion of competitive and innovative small- and medium-scale enterprises, Italy provided over $3 million of funding for a joint programme.

6. Following the resolution of all legal and financial issues, the agreement for the first UNIDO-executed project financed by the Common Fund for Commodities (CFC) was signed in December 1996 with CFC funding of $2.6 million. The project (for product and market development for sisal and henequen, with Kenya and the United Republic of Tanzania as partners) became operational early in 1997. This project is not included in the approval statistics for 1996, as funds were transferred only in January 1997. In March 1997 the second

[1] Excludes the final adjustments related to the completion of UNIDO's extensive involvement in the establishment of the International Centre for Genetic Engineering, which became fully independent at the end of 1995.

CFC-financed project was approved involving the Philippines and Ecuador in a project to develop the processing and application of abaca fibres.

II. PROGRAMMING THRUST FOR 1998-1999

7. For the next biennium, priority will be given to programmes and projects in the areas identified in the business plan on the future role and functions of UNIDO (IDB.17/Dec.2) as adopted at the seventeenth session of the Board for approval by the General Conference. The focus will thus be on the strengthening of industrial capacities and on cleaner and sustainable industrial development, with special emphasis on services for Africa and LDCs, services in support of agro-based industries and small and medium enterprises, and their integration into national industrial structures.

8. Under the project cycle approach introduced during the reform, UNIDO is developing for each priority area a consistent approach and a critical mass of expertise, adjusted for the demand actually materializing for each priority. This is expected to improve the impact of UNIDO activities as well as facilitate funds mobilization, and could eventually enable donors to provide funds for specified thematic priorities that can then be programmed by UNIDO.

9. The programme development activities foreseen under the new approach for a limited number of high-priority, large-scale programmes and projects will enable early contact with potential donors. Such donors may be invited to contribute to or participate in the development of the programme or of its components, either through their headquarters or their local missions. Funds mobilization efforts will be fully integrated in the programme or project development work, and not undertaken only when a programme or project is fully designed, as in the past.

10. Extensive problem analysis—featuring enhanced consultation with beneficiaries, government officials and other relevant parties as well as with other United Nations agencies—and effective teamwork within the Organization are expected to lead to better documented and formulated, high-quality proposals, more responsive to real needs. This should also facilitate the mobilization of funds from a variety of donors. It is anticipated that in larger programmes, other United Nations organizations with complementary mandates will carry out the parts corresponding to their special expertise.

11. To facilitate programme development activities, the general-purpose convertible segment of IDF is being reserved largely for the funding of preparatory phases and other "seed money" activities. It is clear that sufficient funds are essential to enable the Organization to respond to requests for these high-priority programmes.

12. The programme approach, to some extent modelled after the leather programme in Africa, is expected to lead in a number of cases to very large programmes. In most cases these will need to be multi-donor funded. However, to facilitate management as well as funding, programmes will be presented as a set of projects within an overall management structure supported by the central project. Individual components (projects) can be funded by different donors, and in some cases even implemented bilaterally. The approach is expected to lead to new forms of donor cooperation on the basis of agreed programmes developed by UNIDO in cooperation with the recipient countries concerned.

13. IDF should be the main source of funding for core parts of the new-style larger programmes. Such parts will frequently address sensitive issues of a policy nature. Funding from, as well as execution by, a United Nations organization is often the most acceptable option. Such central funding is also essential to attract financing from other sources such as UNDP, bilateral sources and third party and self-financed trust funds. Within such larger programmes it is expected that the Organization will be able to attract financing from new types of funds and will be better able to use existing systems for providing inputs in kind as explained in the next chapter.

III. INNOVATIVE MODALITIES OF FUNDS MOBILIZATION

14. The Secretariat is actively working with existing regular donors to increase the level of their contribution. However, attempts are being made increasingly to address other ministries in donor countries that may be interested in specific activities of UNIDO—for example ministries responsible for the environment, trade or economic affairs. Whereas regular contributions from ministries responsible for development cooperation are normally channelled through the Industrial Development Fund, such additional contributions are normally channelled through trust fund mechanisms.

15. Renewed efforts are under way to approach OECD countries that, for various reasons, have not contributed to IDF in recent years. These countries will be approached for specific programmes or projects in which they are expected to be interested. For instance, European countries may be interested in contributing to projects and programmes supporting the development of industries in North African countries.

16. The more developed of the developing countries are being approached with a view to increasing their funding of UNIDO activities. Contributions can be made along the lines of, for instance, the long-standing contributions of India to both the essential general-purpose convertible segment as well as the special-purpose

segment of IDF. Such contributions from developing countries are very important in support of South-South cooperation, or regional or subregional cooperation where more industrialized developing countries assist their less developed neighbours (e.g. in the case of ASEAN or MERCOSUR). The effective promotion of South-South cooperation is also facilitated by the change from small projects to large, multi-funded programmes, where specific components could be provided for by the more developed of the developing countries.

17. Given a trend followed by several major donors to channel bilaterally most aid resources, UNIDO is further increasing contacts with local embassies of major donors in developing countries. It is expected that, in an increasing number of cases, bilateral funds may be used for UNIDO-developed activities. Several large projects to be funded from bilateral sources are being negotiated and are expected to be signed in the course of 1997. First indications are that this may become a major source of funds in areas where UNIDO can demonstrate its strength and where its unique position is important. This is certainly the case in policy advisory components of large programmes. It is, however, essential that active and full support be given by Governments and other parties involved in the projects, as this is a precondition for access to bilateral funds. Funds mobilization for programmes and projects is increasingly a responsibility to be shared between UNIDO and national counterparts. This is certainly also valid for access to UNDP funds as well as such special-purpose funds as the Global Environment Fund and CFC.

18. It is expected that in the 1998-1999 biennium the work with CFC will lead to further approvals. In view of the close relation between the CFC mandate (increasing the contribution that commodities make to the economies of developing countries) and the UNIDO focus on agro-based industrial development, cooperation between CFC and UNIDO is expected to expand further. Projects in the pipeline (currently with a value of over $10 million) will basically operate under similar agreements as the first one concluded (see para. 6 above), and are therefore expected to become operational faster after their approval by CFC.

19. In the 1998-1999 biennium UNIDO will expand its attempts to mobilize additional resources "in kind" for the benefit of Member States. For instance, there are a number of schemes operated by various countries under which retired senior experts are made available for short periods to projects usually at a cost of only travel and per diem. An agreement was signed in 1996 with the Italian organization "Seniors for Development", and negotiations are under way on similar schemes with other countries, including one covering environment-related activities. While in the past it has proven difficult to fit such resources into individual projects, it is expected that large programmes will make considerable use of these facilities and further agreements will be pursued. In all cases such experts will be used only at the initiative of, and where selected by, UNIDO.

20. Initial efforts are being made to conclude agreements for selected projects, whereby suitable private sector companies will be invited to sponsor projects. Sponsorship may include trust fund financing or contributions in kind, either for the complete project, or as cost-sharing with other sources of funds. For this type of funding it is expected that components of larger programmes will be more attractive than stand-alone projects. In this context, specific funds mobilization opportunities will be pursued during future meetings of the International Business Advisory Council, which was established in October 1996 to strengthen links with the private sector (*Annual Report of UNIDO 1966*, IDB.17/10-PBC.13/10, chap. IV.G, para. 61).

21. A further new approach is the listing on the UNIDO Internet home page (http://www.unido.org) of projects for which no donor has been identified following clearance by the Programme and Project Review Committee. For selected projects, non-traditional potential donors including the private sector are now being approached individually, partly also through the Internet.

IV. ACTION REQUIRED OF THE COMMITTEE

22. The Committee may wish to consider recommending to the Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the information contained in document IDB.18/9-PBC.13/7;

"(b) Decides to delegate to the Director-General the authority to approve projects for financing under the Industrial Development Fund in 1998 and 1999, in accordance with the information contained in chapter II of document IDB.18/9-PBC.13/7;

"(c) Encourages Member States to increase their pledges to the Fund and to make available funding for high-priority UNIDO projects from both multi- and bilateral funds;

"(d) Encourages Governments of recipient countries to take a more active role in sharing with UNIDO the responsibility to mobilize funds for high-priority UNIDO projects from sources available to them."